Assisted Living Communities

How an Aging Population, Health Care Reform, and Changes in State Regulations Will Continue to Drive Growth

BY ROBERT ANDREWS

Assisted living communities are an important component of the long-term care system. The industry provides services to more than 1 million Americans living in an estimated 36,000 facilities across the country, according to the Assisted Living Federation of America. The $38 billion industry comprises a wide spectrum of services and programs, most of which center on elderly individuals.
While the aging U.S. population virtually guarantees industry growth, the business of developing and operating assisted living communities is complex. As a highly regulated industry dependent on personal wealth—and, to a lesser degree, government assistance—the industry is facing growing service demands along with increasingly uncertain payment conditions.

This article provides an overview of the current conditions affecting assisted living communities and the key variables that will likely affect industry growth in the years ahead.

**How Assisted Living Communities Differ from Nursing Homes**

Assisted living communities are often compared to nursing homes, but there are significant differences between the two. Assisted living facilities provide residents with supervision and assistance related to daily activities, such as bathing, meals, transportation, and medications management. Some providers offer around-the-clock skilled nursing services, but most of the operations focus on providing residents with personal care and other assistance as needed.

In contrast, nursing homes provide skilled care for senior citizens who need 24-hour medical attention. Generally, these facilities are used by elderly individuals who have chronic medical conditions that require around-the-clock skilled care and long-term attention. Residents of nursing homes also include recovering patients who have been discharged from the hospital after a major surgery, an illness, or some other medical event.

Additionally, nursing homes receive a larger portion of income from government funding than do assisted living communities. According to the Centers for Medicare and Medicaid Services (CMS), Medicaid and Medicare support approximately 62.3% of nursing home care expenditures. In contrast, about 20.5% of assisted living expenditures are covered by government programs (or long-term-care insurance), and 79.5% of residents pay for services with personal finances, according to the U.S. Census.

**Industry Demand and the Importance of Individual Wealth**

As with other needs-based industries, the demand for assisted living traditionally remains constant despite economic cycles. However, revenue can fluctuate with changes in personal wealth, since the industry relies on private financing and long-term-care insurance. As a result, assistance is often delayed during economic downturns, as seniors and family members try to maintain wealth or rebuild financial assets.

During the recent downturn, the industry has been able to continue its expansion, but revenue growth slowed to a modest 1.1% and 0.9% in 2008 and 2009, respectively, because of the broad-based decline in the financial assets and wealth of seniors and their family members.

Making matters worse, the recent downturn has been driven by the collapse of the housing sector, which is the single largest asset class on most Americans’ balance sheets. The decline in home prices hit seniors hard. According to the U.S. Census, approximately 80.6% of Americans 65 years and older are homeowners (versus 67.1% for the total population). With the U.S. House Price Index dropping at an annual rate of 5.4% during the two years to 2009, lower real estate values and reduced transaction volumes posed a significant obstacle to changing living accommodations.

The financial stability of other demographic segments besides seniors is also vital to the industry because many elderly individuals rely on their children for their health and financial well-being. Unfortunately, the breadth and depth of the recent downturn diminished individual wealth for nearly every U.S. demographic group, which has hurt the ability of some seniors to receive financial support from family members for assisted living services.

While the near-term financial constraints are a potential obstacle to industry growth, there is a small silver lining associated with U.S. demographic trends. Specifically, Americans are aging, so the need for assisted living services will continue to rise. Additionally, those that use assisted living facilities (or even nursing homes) are typically in the later stages of their retirement years, but the most significant growth for this segment is still 10 to 15 years away (Table 1).

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**Table 1**

<table>
<thead>
<tr>
<th>Demographic</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>4.9%</td>
<td>4.9%</td>
<td>4.7%</td>
<td>4.5%</td>
</tr>
<tr>
<td>65 to 69 years</td>
<td>29.0%</td>
<td>13.0%</td>
<td>13.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>70 to 74 years</td>
<td>21.2%</td>
<td>29.6%</td>
<td>13.5%</td>
<td>12.2%</td>
</tr>
<tr>
<td>75 to 79 years</td>
<td>8.5%</td>
<td>22.2%</td>
<td>30.5%</td>
<td>14.2%</td>
</tr>
<tr>
<td>80 to 84 years</td>
<td>-1.0%</td>
<td>22.2%</td>
<td>23.7%</td>
<td>31.9%</td>
</tr>
<tr>
<td>85 to 89 years</td>
<td>3.7%</td>
<td>0.8%</td>
<td>12.1%</td>
<td>25.8%</td>
</tr>
<tr>
<td>90 to 94 years</td>
<td>18.2%</td>
<td>6.5%</td>
<td>3.6%</td>
<td>15.3%</td>
</tr>
<tr>
<td>95 to 99 years</td>
<td>20.8%</td>
<td>22.5%</td>
<td>10.5%</td>
<td>7.6%</td>
</tr>
<tr>
<td>100 years and over</td>
<td>32.9%</td>
<td>28.6%</td>
<td>29.6%</td>
<td>18.9%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
Times Are Changing: The Shift in Medicaid Expenditures

While assisted living facilities and nursing homes can provide overlapping services, recent trends in Medicaid expenditures for the two providers are on distinctly different paths (see Figure 1). Even with an aging population, states have begun to cut back on expenditures associated with nursing homes in an attempt to contain rising Medicaid costs. As a result, the supply of nursing homes declined 1.6% in the eight years to 2008, while the average age of the U.S. population increased 4.0% to 36.7 years of age, according to the National Center for Assisted Living (NCAL).

At the same time that states have constrained the demand for traditional nursing facilities, they have also pursued several Medicaid programs intended to increase long-term-care options for individuals. For example, spending for assisted living services—including home health care, personal care, and home- and community-based service (HCBS) waivers for older adults and individuals with physical disabilities—increased 81.5% in the seven years to 2007, while nursing home spending rose a much more modest 9.8%, according to the NCAL.

HCBS waiver programs allow states to finance “noninstitutional” services for Medicaid-eligible individuals by “waiving” certain Medicaid requirements. Generally, states request waivers for federal regulations that are detrimental to the development of Medicaid-financed, community-based treatment alternatives. States offer waivers to save money, but they also recognize the individual benefits associated with avoiding institutionalized care, such as preserving independence and privacy.

Of the Medicaid programs, HCBS waivers are the most commonly used, but all three provide similar incentives for individuals to opt for assisted living over nursing facilities. The Medicaid programs supplement some of the costs associated with assisted living services through reimbursements or direct payment structures. At the same time, the majority of these programs are limited in that participants must meet various income-based standards, which are generally based on state or federal Supplemental Security Income. As a result, government expenditures for nursing home services continue to considerably outweigh HCBS waivers.
Health Care Reform’s Impact on Industry Growth

President Obama’s health care reform, the Patient Protection and Affordable Care Act (PPACA), is expected to improve the affordability of long-term care, particularly HCBS services, as the federal government increases incentives and financing options for assisted living programs. Most notable is a new, publicly run, long-term-care insurance program known as the Community Living Assistance Services and Supports (CLASS) Act.

Under CLASS, disabled individuals would receive benefits that would be used for HCBS when necessary. The program is voluntary, but all U.S. employers will automatically enroll employees. In addition, health care reform contains policies regarding Medicaid payments for HCBS services. CLASS was signed into law on March 23, 2010, and will be implemented over time.

While state HCBS policies have had their limitations, they are expected to change dramatically under the new health care legislation, which encourages states to increase options for long-term-care solutions. Under CLASS, assisted living and retirement communities will benefit from the Community First Choice (CFC) Option, which takes effect in 2011 and adds new financial incentives for states to shift Medicaid beneficiaries out of nursing homes into HCBS.

To encourage states to adopt this program, the government will enhance the Federal Medical Assistance Percentage (FMAP) program, which is used to determine the amount of federal matching funds for state expenditures associated with social services, medical costs, and insurance payments. FMAP also will prevent limits on the number of individuals who can be serviced, as many states currently have waiting lists for supplemental or Medicaid expenditure programs associated with assisted living and retirement communities.

Geographical Trends

The distribution of retirement and assisted living communities reflects general population trends within the United States, as family members often want to have their parents near them. Consequently, the three states with the highest percentages of residents 65 or older—Florida (17.8%), West Virginia (16.0%), and Maine (15.6%)—are not the states with the highest concentration of establishments. Instead, the distribution of communities is in line with the general population distribution. Three of the top five states are California (15.7% of establishments; 12.1% of population), Florida (6.1%; 6.0%), and Texas (4.5%; 8.0%), as shown in Table 2.

Besides population, the distribution of communities is also influenced by state and local policies regarding HCBS waivers (Table 3). As a result, states like Washington and Oregon have a disproportionate number of establishments relative to population, while states with lower waiver expenditures, such as New York and Texas, contain fewer assisting living communities in comparison to their population numbers (Table 4).

In fact, according to the U.S. Census, New York accounts for only 3.1% of assisted living communities, despite being the fourth most populated state (home to 6.4% of all Americans). At the same time, the state has a disproportionately high level of nursing facilities, accounting for 8.7% of all nursing homes in the country.

Going Forward: The Need for Complete Care

As highlighted earlier, with support from the federal govern-
The ability for assisted living communities to differentiate themselves from in-home providers is important, particularly if prices are comparable.

Firms that can offer independent living, assisted living, and nursing home care, or position themselves as continuing-care retirement communities (CCRCs), will most likely benefit from the shift in consumer and government sentiments toward long-term care. CCRCs already exist, but the ability for traditional assisted living communities to offer nursing-home services is essential for long-term prosperity, particularly as the government looks to diminish programs related to traditional nursing homes.

CCRCs provide complete coverage for long-term care. Within a CCRC, an elderly couple or individual is able to move into an “independent living” apartment within a retirement community. Once their need for care increases, the couple or individual can easily access assisted living services in the same facility. Over time, the need for skilled nursing may arise for these individuals, whether for rehabilitation or terminal disability, and nursing home care would be available right on the premises. Overall, the resident’s needs are met, no matter what level of care is needed, thus satisfying the demand from consumers and increasing the provider’s ability to capitalize on government incentive programs.

Key Risks to the Industry
The retirement and assisted living industry faces stiff competition from substitutes, particularly home care providers that offer skilled nursing and personal care services within an elderly patient’s own home. Like other industry participants, these providers are included in HCBS waiver programs and are often used as a substitute for nursing home services.

Having care provided within the home is less disruptive than moving into assisted living communities, but prices can vary depending on services. As a result, the ability for assisted living communities to differentiate themselves from in-home providers is important, particularly if prices are comparable.

Generally, prices are determined by the level of care that each elderly individual needs. Higher fees are associated with more needs-based or skilled-nursing services, especially 24-hour care. Consequently, home care providers often have an advantage in costs in cases of non-24-hour care, as fees are usually based on hourly rates ranging between $7.50 and $15 for nonskilled services and $16 to $25 for skilled-care support.

In contrast, larger assisted living communities are more competitive with intensive services or 24-hour coverage, as these communities can leverage scale and disperse costs for skilled-nursing staff and around-the-clock monitoring programs. Specifically, prices for live-in home care services can be upward of $200 per day, while assisted living costs are normally between $800 and $4,000 per month, according to Helpguide.org.

As mentioned earlier, the industry is susceptible to changes in personal wealth, as the majority of communities rely on private financing to pay for services. Additionally, the industry is subject to future legislative developments, which may include constrained government budgets. As participants increasingly rely on changes to Medicaid, particularly once the CFC and CLASS programs are implemented in 2011, any cut in Medicaid expenditures or changes favoring alternative service providers will have an adverse effect on industry growth.

It is also important to note that, unlike nursing homes, assisted living communities employ nonunion workers. That means that any changes in this labor structure will likely increase operational costs and hurt margins. While providers could pass these potential cost increases on to residents, such a move could hurt industry demand and prompt consumers to look for cheaper alternatives, such as home care providers.

Conclusion
Assisted living and retirement communities are already an important component of long-term care, and their involvement is expected to increase over the next 20 years as a result of U.S. population trends (Table 5). Despite the demographic tailwind, the health of retirement funding and the future financial resources available to support the industry are far more difficult to forecast.

<table>
<thead>
<tr>
<th>Age</th>
<th>2010</th>
<th>2030</th>
</tr>
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<tbody>
<tr>
<td>Under 15 years</td>
<td>20.0%</td>
<td>19.7%</td>
</tr>
<tr>
<td>16+ years</td>
<td>78.6%</td>
<td>79.0%</td>
</tr>
<tr>
<td>18+ years</td>
<td>75.9%</td>
<td>76.4%</td>
</tr>
<tr>
<td>21+ years</td>
<td>71.6%</td>
<td>72.6%</td>
</tr>
<tr>
<td>62+ years</td>
<td>16.1%</td>
<td>22.8%</td>
</tr>
<tr>
<td>85+ years</td>
<td>2.0%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Median Age</td>
<td>37.0</td>
<td>39.0</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td>78.3</td>
<td>80.7</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
In the short term, the demand for industry services is expected to rise as the economy slowly recovers and the housing market rebounds. Housing prices are particularly important, as an estimated 80% of people entering an independent living facility are coming from owner-occupied residences. For those who delayed elderly care services during the recession, any recovery in local housing markets will help diminish the transaction costs of changing residences. In addition, the ability for individuals or family members to access credit will also impact growth, particularly residents who rely solely on their children or other family members to finance assisted living community services.

Credit market conditions will also affect the supply of new assisted living communities, as many firms rely on debt financing to expand or build new facilities. Tighter lending conditions will support consolidation activity within the industry over the next few years, as larger and more financially sound organizations have better access to credit than smaller or over-leveraged firms. As a result, the number of enterprises is forecast to decline slightly over the next five years, despite a rise in demand and improvements in general economic conditions.

Local market dynamics, competition from alternative sources of care (such as in-home services), changes in state and federal aid programs, and shifts in labor market conditions (union versus nonunion) will pose key risks to operator profits and growth. Operators with vertically integrated businesses and some level of service diversification—such as CCRCs—will likely have the most flexibility in successfully managing through potential changes.

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Note
1. Assisted living services are broken out into home- and community-based services. Home-based services are part of Home Care Providers, or NAICS 62161, while community-based programs are part of the Retirement and Assisted Living Communities, or NAICS 62331. Traditional nursing-care services fall under NAICS 62311.